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DIA and DOS review(s)
completed.

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II. ASIA-AFRICA

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Laos: The Laotian Government has acted quickly to implicate Hanoi, as well as the Communist front inside Laos, in the attacks on Lao Army garrisons in Sam Neua Province. A communiqué of 29 July charged that the attacks were carried out by "well-armed and -organized" units under North Vietnamese command. The Phoui Sananikone government has also announced it is sending troop reinforcements to the area and plans "harsh" punishment for leaders of the Communist-front movement who have "collaborated with foreigners."

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Indonesia: Defense Minister Nasution has told the American ambassador that he intends to increase military participation in the governmental apparatus. The ambassador believes the aim may be ultimate military domination of the government. Nasution apparently plans to appoint officers to all important ministries to "assist" in the implementation of policy directives from the cabinet, where the army already has substantial influence. Although Nasution may be able to increase the army's role in this manner, the promulgation of effective programs to solve Indonesia's numerous problems is much less certain.

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Pakistan: President Ayub is firm in his decision that the cabinet and some other top government officials will move to Rawalpindi, in northern West Pakistan, some time this fall. This is a preliminary step in his announced plan to shift the capital of Pakistan from Karachi to the more attractive Rawalpindi area. A move of top government leaders, mainly military men, will facilitate close liaison with army headquarters, which has long been located at Rawalpindi. It will lead, however, to numerous administrative difficulties.

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DAILY BRIEF

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Watch Committee conclusion--Middle East and Asia: Situations susceptible of direct exploitation by Sino-Soviet bloc action which would jeopardize US interests exist; in the Middle East, particularly in Iraq and Iran; and in Southeast Asia in Laos.

NO The initiation of significant hostilities is unlikely in these areas in the immediate future. 25X1

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*India-USSR: New Delhi announced on 29 July that it has accepted a Soviet offer of \$378,000,000 in aid for India's third five-year plan (1961-66). This credit brings total Soviet bloc aid to India to \$702,000,000--about 20 percent of the total foreign aid received by India to date. While no announcement has been made on the projects to be financed by the new credit, the high-level Indian economic mission which visited Moscow in May apparently secured Soviet agreement to double the capacity of the Bhilai steel mill, construct a large petroleum refinery, and expand the scope of several heavy machinery plants the USSR had previously agreed to construct. Public attention in India has already shifted to the third plan, which now calls for outlays of about \$21 billion and probably will have a \$5-7.5 billion foreign exchange gap. The USSR will receive widespread favorable publicity for its willingness at this early date to support the goals of the third plan by extending aid for several of the most important projects.

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II. ASIA-AFRICA

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Situation in Laos

Laotian Army reinforcements, [consisting of four infantry companies,] are expected to arrive by 30 July in Sam Neua Province, where widely scattered units of two government battalions have come under attack by Communist partisans and several outlying posts have been lost in recent days. [A] parachute battalion is being held in reserve for commitment if needed. Laotian Army commander General Ouan appears confident that order can be restored, but the low capability of the national army is a serious obstacle, and the army apparently lacks firm information on enemy locations and intentions.]

The US Military Attaché in Vientiane was informed on 28 July that rumors were sweeping the town of Sam Neua that a force including North Vietnamese is moving on the town from the east. The attaché's sources allege that the defense force had dwindled to a dozen men. These reports are unconfirmed.

The government, meanwhile, has acted quickly to implicate North Vietnam and the Laotian Communist-front organization--the Neo Lao Hak Zat (NLHZ)--in these attacks. A 29 July communiqué charges that the "well-armed and -organized" dissident units in Sam Neua Province are under Hanoi's command. The NLHZ leaders, who by now apparently have been arrested in Vientiane, were threatened with harsh punishment for "collaborating with foreigners." [Recently NLHZ chief Prince Souphannouvong protested vigorously against government repression of his party, which he claimed enjoyed "solid" foreign backing. He threatened a full-scale return to guerrilla warfare unless alleged government persecution ceased.]

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Laos' open condemnation of North Vietnam is designed to undercut the expected upsurge in Communist propaganda which has been accusing the government of collaborating with the United States to rekindle the civil war in Laos and start a new Indochina war.

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Nasution Outlines Plan for Increased Military Role in Indonesian Government

Plans for increased military participation in the Indonesian governmental apparatus through the appointment of officers to "assist" all important ministries in implementing policy have been outlined by Defense Minister Nasution to the American ambassador. Nasution may envisage a system similar to that in Burma, where army officers attached to key ministries in effect act as administrators behind civilian heads. He pointed out that policy decisions would continue to be made by civilian instrumentalities, but admitted that, behind this democratic form, the military, with already substantial representation in the cabinet, might have the dominant voice.

Although Nasution may be able to increase the army's role in this manner, the formulation of effective programs to solve Indonesia's complex political and economic problems remains uncertain. His plan apparently has the approval of President Sukarno, who is currently backing the army to maintain a balance of political power. Should Sukarno regard Nasution's growing influence as a threat to his own position, he would probably move to downgrade or remove him, possibly by working through elements in the air force and among the regional army commanders who have expressed some dissatisfaction with the army chief's role in the cabinet.

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Pakistani Cabinet To Be Moved to Northern West Pakistan
In Fall

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President Ayub has told the American ambassador that he has firmly decided to move the cabinet and some other high officials to Rawalpindi, in northern West Pakistan, some time this fall. This is a preliminary step in his announced plan to shift the national capital of Pakistan from Karachi to the Rawalpindi area. The entire move is to be completed over several years as funds become available.

Many army and civil service leaders come from the Punjab and from Pathan areas in the north and dislike the enervating climate in Karachi. The new location will facilitate closer contacts between government leaders and army headquarters, which has long been in Rawalpindi. It will also enable Ayub to maintain more contact and greater control over the army than is possible in Karachi.

Beginning the shift with the cabinet, however, seems likely to undermine the military regime's efficiency by separating its military leaders from the civil administration, creating serious communication and administrative difficulties. These would probably disrupt implementation of the regime's reform and reconstruction policies.

Many Pakistanis who live outside the Punjab and Pathan areas have long resented what they consider Punjabi domination of the government. Thus, they are likely to oppose moving the capital from "neutral" Karachi to the Punjab area.

The government has announced its decision to establish a secondary national capital in East Pakistan, presumably in the hope of lessening Bengali resentment toward the move. This, however, is probably a distant prospect.

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